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Remarks
23. D/ALA/DI X
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Executive Secretary
20 May 85
Date

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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

Executive Registry
85- 2063

May 18, 1985

MEMORANDUM FOR MR. NICHOLAS PLATT
Executive Secretary
Department of State

COLONEL R.J. AFFOURTIT
Executive Secretary
Department of Defense

MRS. HELEN ROBBINS
Executive Assistant to the Secretary
Department of Commerce

MR. EDWARD J. STUCKY
Acting Executive Secretary
Department of the Treasury

[redacted] STAT
Executive Secretary
Central Intelligence Agency

MR. JAMES FRIERSON
Executive Assistant to the
U.S. Trade Representative

MR. C. WILLIAM LASALLE
Chief of the Executive Secretariat
U.S. Information Agency

SUBJECT: Nicaragua Sanctions: Sandinista Responsibility for their Economic Failures

The attached papers, prepared by the State Department, document Sandinista responsibility for the deterioration of their economy and their efforts to establish close ties to the Soviet bloc. You are requested to give wide distribution to this material

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within your agency. The papers provide talking points and background papers which can be used to refute efforts by the Nicaraguan government and others to blame the United States for Nicaragua's economic failures and to contend that U.S. actions have driven Nicaragua into the arms of the Soviets.

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Executive Secretary for

Attachments:

Tab A	Talking points on Nicaragua's economic crisis and quotes from Sandinista officials
Tab B	Paper on "The Sandinista Economic Failure"
Tab C	Questions and Answers

TAB A

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TALKING POINTS ON NICARAGUA'S ECONOMIC CRISIS

The following talking points supplement those previously prepared concerning the United States trade embargo on Nicaragua. They are to counter arguments that the United States is responsible for the deterioration of Nicaragua's economy and is driving Nicaragua into the embrace of the communist world.

-- Although Nicaragua's economy was damaged during the revolution, it began a recovery in 1980-81 due to the hope of Nicaragua's producers and large amounts of foreign economic assistance. Initially, Nicaragua received very favorable treatment from Western nations and international assistance institutions. For example in 1981 Nicaragua received $363 million in loans from bilateral and multilateral sources. Additional amounts were probably given as grants. During the early period, the United States was the largest bilateral donor, providing $118 million in economic and humanitarian assistance by 1981.

-- Unfortunately, as the Sandinistas implemented policies which placed Marxist ideology over economic realism, the economic deterioration has grown steadily worse. This deterioration began well before the existence of a full-fledged insurgency in Nicaragua.

-- United States aid was suspended in 1981 because of the Sandinistas' support for subversives in El Salvador. Aid from other sources has continued; however, due mainly to Sandinista policies this money has not succeeded in reviving the Nicaraguan economy. In 1978 the Somoza Government received about $100 million in bilateral and multilateral assistance; GDP per capita was about $1300. In 1984, the Sandinistas received about $500 million in aid, but GDP per capita was only $956.

-- Since 1980, the GNP in per capita terms has declined steadily, and is now more than 25% below the pre-revolution level of 1978. Exports declined by 70% in real terms since 1978.

-- Nicaragua is seriously in arrears in its debt repayments to most of its major creditors. Many of its arrears extend for more than a year. For example, arrearages to the World Bank totalling more than $15 million now exceed 300 days, a period which is longer than any of the Bank's other 145 members.

-- Key agricultural production has fallen off sharply because of disincentives such as price controls, lack of needed

fertilizer, insecticide and transportation, and harassment of the private sector. Cotton production is down 20 percent this year; the coffee and sugar crops are also depressed.

-- The United States initially gave strong support for Nicaragua in multilateral financial institutions. It now opposes loans to Nicaragua because it is not a good use of funds to support governments whose economic policies discourage development.

-- The Sandinistas, for tactical reasons having to do with their image abroad, have given lip service to a mixed economy, but behind the scenes they have been striving to break the back of the private sector and take control of an ever larger portion of Nicaragua's economy. Today, barely half of the tightly controlled economy remains in the private sector, and Sandinista leaders have predicted that the state will generate more and more of the GNP. (For example, Vice President Sergio Ramirez spoke of the state producing 80 percent of GNP. Barricada, February 28, 1983)

-- Sandinista anti-private sector policies such as confiscations--often used to punish political opponents-- plus controls on prices, wages, finance, interest rates and foreign exchange, and high taxes have strangled private enterprise, discouraged production and prompted many of Nicaragua's businessmen, managers, and professionals to go into exile.

-- The country's two largest independent labor confederations, the Nicaraguan Workers Central (CTN) and the Confederation for Labor Unification (CUS), with a claimed combined membership of approximately 70,000, face policies of official hostility -- including arbitrary and illegal imprisonment --designed to intimidate members into abandoning the independent unions. (The FSLN-affiliated unions claim membership of 320,000, including seasonal workers.) In 1983, the Sandinistas seized a union hall belonging to a stevedore organization and held an illegal "vote" by non-union members, installing a Sandinista leadership. This blatant violation of labor rights was officially condoned by the Ministry of Labor.

-- Sandinista policies have created unprecedented hardships for the average Nicaraguan, including shortages of food and other basic necessities. Wages, first frozen by the government in 1981, have plummeted in real terms as inflation has soared. According to GON statistics, real average monthly wages in the private sector fell by one-third between 1981 and 1984. Unemployment rose to over 20 percent last year.

-- The government has taken over the distribution system and basic consumer goods are rationed. The rationing system is operated by FSLN "block committees," providing yet another method of coercion of the population.

-- The Sandinistas' actions have repeatedly demonstrated their long and close alignment with the Soviets. The Ortega-Gorbachev economic agreement that was signed in Moscow on April 29 is just the latest example. Thus, there is little the U.S. can do to "drive" Nicaragua into the arms of the Soviets; the Sandinistas embarked on this course long ago.

-- Only strong pressure can succeed in compelling the Sandinistas to return to the original goals of the revolution, i.e., a truly pluralistic, democratic society.

<u>Sandinista Quotes</u>

Quotes illustrating Sandinista leaders' consistent adherence to Marxist-Leninst ideology and their "strategic allies," the Soviets and Cubans, are:

-- The principal founder of the FSLN movement, the late Carlos Fonseca Amador, in a written message to the Soviet Communist Party in 1971, described the FSLN as a "successor of the Bolshevik October Revolution" and stated that "the ideals of the immortal Lenin are a guiding star in the struggle."

-- In a major policy and planning document prepared only two months after the July 19, 1979, seizure of power, the Sandinistas described the United States as the "rabid enemy" and referred to the Nicaraguan middle class as the "traitorous bourgeoisie."

-- "Marxism-Leninism is the scientific doctrine that guides our revolution." (Defense Minister Humberto Ortega, in a pamphlet distributed to subordinates, August 25, 1981)

-- At the July 1984 commemoration of the Cuban revolution, Sandinista Interior Minister Tomas Borge said: "We have come here to be . . . next to our brothers of the Communist Party of Cuba, to tell them once again . . . that Cuba's friends are Nicaragua's friends, and Cuba's enemies are Nicaragua's enemies . . . ." (Havana Domestic Service Radio, July 25, 1984, quoted in FBIS, July 27, 1984)

-- The Sandinista strategy to manipulate public opinion in Western countries by "displaying" the private sector was illustrated in <u>Comandante</u> Bayardo Arce's now famous May 1984 speech: ". . . for us it is useful, for example, to be able to display an entrepreneurial class and private production . . . while we move ahead in strategic ways . . . . We have talked about the first experience of building socialism with the dollars of capitalism."

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TAB B

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THE SANDINISTA ECONOMIC FAILURE

Sandinista policies, which have consistently emphasized Marxist ideology over economic realities, have thrown Nicaragua into a severe economic crisis. Nicaragua was a productive agricultural country with approximately 3 million inhabitants and more than 29 million acres of land. Since the 1979 revolution, the Sandinista government has sought to implement a marxist state-controlled economy, while using rhetoric claiming to favor a mixed economy and a pluralistic society.

After five years of Sandinista rule, the facts speak for themselves. The Government of Nicaragua in the tradition of its mentor, Cuba, has secured effective control of the economic life of the country. Immediately after the revolution, it took control of 40 percent of the economy by nationalizing all the Somoza holdings as well as entire industries such as banking and export marketing firms. To increase their share since then, the Sandinistas have used a variety of ideologically motivated means such as confiscation, limitation of access to credit, and wage and price controls. Although nominally half the economy remains in the private sector, even that part is tightly controlled by the government. As Comandante Bayardo Arce put it, "any investment project in our country belongs to the state. The bourgeoisie no longer invests--it subsists."

Anti-Private Sector Policies

Sandinista policies and regulations have stifled the private sector and have been powerful disincentives to production. The Sandinistas have not respected private property; they have confiscated whatever firms or lands they pleased, often merely to punish opponents. They imposed price controls which made impossible a reasonable profit for producers, thus discouraging production. They have required farmers to sell their products to the government at prices so low that many small producers have been driven completely out of business. They have used their control of banks, financing, and interest rates to squeeze out the private sector and for political purposes. The percentage of loans to the private sector dropped from 70 percent in 1978 to only 10 percent in 1984.

Nationalization of all export marketing and stringent controls over access to foreign exchange has thwarted businessmen trying to develop Nicaragua's export crops. High taxes imposed by the Sandinistas (the highest in Central America) ensure slow economic strangulation of private enterprise. These policies, coupled with the repressive political climate created by the Sandinistas, have caused many of Nicaragua's business executives, managers, farmers, and professionals to become disillusioned and go into exile.

Impact of Militarization

As early as February 1981, the FSLN announced that it would build a 200,000-man militia (almost 10 percent of the population). Today the government admits to spending 40 percent of the budget on the military. Regimentation of the society has also had disruptive effects on the economy. For example, the obligatory military service has diverted human resources from production to the military. The impact of militarization of the society cannot be accurately quantified, but it is reflected in the areas of transportation, communication, and education. Fear of conscription into the Sandinista army has affected labor discipline, with many young, able-bodied workers and students fleeing the country or hiding from the authorities.

Economic Decline and Inflation

Sandinista policies have led to economic decline and have created unprecedented hardships for the average Nicaraguan. The gross domestic product is 14 percent below pre-revolutionary levels. The budget deficit is more than 20 percent of the gross domestic product and growing. National savings is only about 1 percent of the gross domestic product, one of the lowest rates in the world. Inflation in the price of many food staples has reached 200-300 percent and continues to climb. Wages, first frozen by the government in 1981, have plummeted in real terms. Lower and middle class families are unable to maintain even their low standards of living. Basic consumer goods that previously were readily available to the public have now become scarce, and the long lines typical of Eastern Europe have become commonplace. Numerous products are now being rationed through a system administered by Sandinista "block committees."

Debilitating Controls

The Sandinistas have moved to take over much of the distribution system and push out the private sector. As in other state-controlled economies, a black market has become active. Domestically produced goods such as meat, sugar, milk, and eggs are becoming scarce, and imported consumer goods are virtually nonexistent. Sandinista regulations restrict private citizens' access to foreign currency, and Nicaraguans wanting dollars must exchange their money on the black market for only 10 percent of its official value. To discourage people from leaving, the Sandinistas have set passport and exit visa fees so high that they are equal to nearly a full month's wages for the average Nicaraguan.

Loss of Credit Rating

Sandinista policies have made Nicaragua increasingly dependent on foreign handouts. Exports have declined 25 percent in nominal terms and 70 percent in real terms. In less than six years, the Sandinistas have tripled Nicaragua's foreign debt from $1.6 to $4.6 billion. Nicaragua has fallen in arrears on many of its debts and it is not considered creditworthy by commercial lenders.

Initially, Nicaragua received very favorable treatment from the international community, obtaining hundreds of millions of dollars a year from Western nations and multilateral financial institutions. As the Sandinistas have steered Nicaragua ever further toward communism, support from the West has been declining.

Role of the United States

From the time the Sandinistas took power in 1979 until 1981, the United States was the largest bilateral donor to Nicaragua, providing $118 million in economic and humanitarian assistance. The United States also supported Nicaragua in its dealings with multilateral financial institutions and private banks. For example, by 1983 the Sandinista government had received more than $250 million from multilateral development institutions to which the United States is the principal contributor.

Actions by the United States against the Nicaraguan economy have not been arbitrary or sweeping. We suspended government-to-government aid in 1981 only after the Sandinistas persisted, in spite of repeated warnings, in their support of armed insurgency in the region. Only in 1983, with the pattern of Sandinista destabilizing actions even more clearly established, did we reduce Nicaragua's sugar quota.

The Sandinistas made clear nearly six years ago that they were committed to a close security and economic relationship with the Soviet bloc, and Cuba. President Ortega's trip to Moscow is only the latest visible sign. The economic sanctions announced in early May cannot be blamed for pushing the Sandinistas into the Soviets' arms. By the same token, we have advised the Sandinistas that we are prepared to reexamine the sanctions at any time they take concrete steps toward a dialogue and other measures leading to genuine reconciliation, freedom, and peace in Nicaragua and the region as a whole.

#0817A

May 1985

THE NICARAGUAN ECONOMY FIVE YEARS AFTER THE REVOLUTION

THE ECONOMY: THEN AND NOW

Nicaragua is the largest Central American nation in land area but has a population of only about 2.7 million people. It is one of the least developed countries of the region and is mainly an agricultural country. Gross Domestic Product (GDP) is $3.1 billion; in real terms, about 14% below 1978 levels. Nicaragua's key exports are coffee, cotton, sugar, meat, seafood products, bananas and gold; it has a small industrial sector based mainly on agricultural chemicals. Population and economic activity are concentrated on the Pacific coast.

When the Sandinistas took power after a year and a half of intense struggle, the economy was badly damaged. Capital flight and lost production amounted to as much as $1.5 billion; foreign exchange reserves were close to zero. The foreign debt at the end of 1979 was $1.6 billion. The budget deficit was over 7% of Gross Domestic Product (GDP). ECLAC, the UN's Economic Commission for Latin America and the Caribbean, estimated that the fighting had caused about $500 million in physical damage.

After five years in power, the Sandinista government is still struggling with the same problems, as well as some new ones created by their ideologically oriented policies. Output is 14 percent below pre-revolution levels. The foreign debt now stands at $4.6 billion, and Nicaragua is incapable of meeting its debt service obligations. The budget deficit is over 20 percent of GDP and growing. The trade gap has averaged about $350 million for the past five years. The Sandinistas rely on foreign assistance to bridge a $500 million balance of payments deficit.

Recent Government of Nicaragua (GON) economic statistics are not considered credible by many international observers and institutions. The Sandinistas claimed a 3 percent growth rate in 1983, but government officials admit that the standard of living declined. Even the official statistics reflect the visible decline in living standards. In real terms, overall non-military consumption per capita was off 3 percent in 1983, while real private consumption per capita fell by almost 8 percent. The GON attributed this decline to the effects of aggression, but increasingly the Nicaraguan people are beginning to question Managua's economic policies. And for the first time, the Sandinistas are admitting that they have made serious mistakes in managing the economy.

The year 1984 and the first quarter of 1985 have seen an acceleration in the economic decline of the country. Although hard figures are unavailable, both the coffee and cotton harvests for 1984/85 were significantly below projected levels, coffee possibly 30-40 percent and cotton at least 20 percent. Price inflation of many food staples has been 200-300 percent and these continue their upward climb. Real wages, on the other hand, have declined and lower and middle class families are unable to maintain even their relatively low standards of living.

Meanwhile, the Sandinistas have made no significant changes in any of their policies and programs to respond to the deteriorating situation or to retreat from the ongoing transformation to a Marxist style economy. Small price increases have been given to producers and unrealistically low wage raises granted to workers at all levels of the economy. Real prices for goods and services have risen owing to shortages unrelieved by these halfway measures. The GON 1984 budget was almost 10 billion cordobas in excess of receipts and 1985 looks even worse. Today the Sandinistas continue to ignore free market indicators in favor of controlled wages and prices. Oil from the Soviet Union, now their only regular supplier, and Soviet and Eastern European shipments of all kinds of foods, consumer goods, and industrial equipment have thus far prevented a total collapse of the economy as internal production declines.

FOREIGN ASSISTANCE

Nicaragua has received very favorable treatment from the international community since 1980 in assistance grants and loans. Even the generous amounts of aid received by the Sandinistas has not permitted a reactivation of the economy. Much of the assistance received has been in grant form or low-interest loans; yet the GON is unable to pay its bills and remains dependent on external resources to stay alive. Virtually all of their oil imports have been provided without payment.

At almost any time at least one Sandinista representative is abroad seeking economic aid. The Sandinistas generally have been successful in soliciting support although aid, particularly from Western Europe, has been falling off since 1983. Since taking power, they have been able to rely on donations -- primarily from Canada, Sweden, and the Soviet bloc -- for Nicaragua's entire wheat supply. France and Spain have also been helpful in certain areas of the economy. While other

nations under the San Jose Accord[1] were struggling to meet payment obligations for petroleum imports, Nicaragua was able to put off payments without losing its oil supply. Venezuela did cut off deliveries in mid-1982 when Nicaragua failed to make a payment, but Mexico took up the slack and turned a blind eye to Managua's failure to honor its obligations until August 1984. Since then, Mexico has been firmer about requiring payment and has limited shipment of crude. Mexico announced a cutoff to Nicaragua pending renegotiation of the oil debt which now stands at over $500 million.

The Soviet Union seems willing to take up part of the slack in aid. The Soviets, who beginning in 1984 provided roughly 70 percent of Nicaragua's oil needs, is now expected to supply nearly 100 percent either directly or through swap arrangements with other oil producing countries. However, on more than one occasion, the Soviets have made it clear that the Nicaraguans should continue to pursue economic ties with the West because the Soviets are not prepared to fully subsidize their policies as they do for Cuba.

Cuba has also helped Nicaragua, but at least part of its aid may be counterproductive. Despite currently depressed world prices for sugar and slim chances for increased world consumption in the foreseeable future, Cuba's largest international development project in Nicaragua is the $74.5 million Timal sugar refining complex near Managua. Operations at the mill reportedly must be subsidized by the GON. Cuba likely will remain willing to provide aid also in the form of Cuban-produced goods and technical assistance and doctors and teachers. However, pinched for foreign exchange itself, Cuba will not provide hard currency assistance. Many Nicaraguans believe that some manufactured goods, such as clothing, soap and some food products in short supply, are being exported to Cuba as barter payment for Cuban aid. This is not acknowledged by the GON.

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(1) The San Jose Accord, initiated in 1981, is an agreement whereby Mexico and Venezuela agreed to supply crude oil to nine Central American and Caribbean countries on a concessionary basis. When Mexico and Venezuela negotiated another one-year extension of the Accord in August 1984, they made the supply of crude conditional on strict compliance with the payment arrangements specified.

TRADE

Nicaraguan export earnings traditionally have been and continue to be based primarily on agricultural products. Coffee is the main export product, followed by cotton, sugar, and beef. Together, these four products make up approximately 70 percent of total exports. Export performance has been dismal, dropping 25 percent in nominal and 70 percent in real terms from 1978 to 1984. Private sector analysts dispute government claims that poor performance is a result of adverse world market prices and dislocations caused by the war. Instead, they blame Sandinista attacks on the private sector and GON fiscal priorities which have effectively denied them access to hard currency in order for them to purchase needed pesticides, insecticides, fertilizers and spare parts for machinery to keep production high. These Nicaraguan analysts believe many of the problems encountered in the private sector are part of a deliberate policy of the Sandinistas to build up the state sector of the economy at the expense of the private sector.

When the Central American Common Market [CACM] was functioning well, prior to the onset of regional strife, Nicaragua also had been able to develop some light industries. Until 1979, about one-half the export products of these industries went to CACM countries. In 1979, the percentage dropped to one-third. Since then, light industries have suffered declines every year ranging from 7 percent in 1981 to almost 25 percent in 1982. Since 1981, Nicaraguan trade with other CACM countries has steadily and sharply declined, according to IMF figures. Nicaragua has accumulated huge trade debts to its neighbors, owing Costa Rica almost $200 million and Guatemala over $100 million. Its total trade debt to its CACM partners is $400 million.

Nicaragua is actively trying to diversify its markets. Until April 1985 the United States continued to be one of Nicaragua's main trading partners, but its share of Nicaraguan trade declined since the revolution in favor of Mexico, the Middle East and the Soviet Bloc. Trade with Communist countries has been increasing since the revolution. The U.S. maintained its share of the Nicaraguan import market even as the market was shrinking overall. Nicaraguan exports to the U.S. declined by nearly half from 1983 to 1984. The Sandinistas have been moderately successful in obtaining supplier credit from sympathetic governments, but have increasingly turned to barter and countertrade agreements.

DEBT

Based on the most generous debt rescheduling terms given to any third world debtor, the Sandinistas were able to keep up with obligations to commercial banks on external debt until May 1983, when they failed to make a $40 million payment. Subsequently, foreign commercial bank creditors negotiated several payment reschedulings, but Nicaragua has been unable to meet these limited payments. Nicaragua is also in arrears to multilateral financial institutions. In late September 1984, the World Bank suspended credit to Nicaragua because of payment arrearages. The GON also has arrears to the Central American Bank [CABEI] and the UN system as well as to the USG and other governments.

PROBLEMS WITH ECONOMIC POLICY

Nicaraguan economic policy suffers from the overwhelming emphasis placed by the Sandinista leadership on ideology over economic realities. Many managers and professionals have fled in disillusionment with the present government. CONAPRO, the Nicaraguan National Association of Professionals, estimates 60 percent of managers and professionals in the country have left since 1979.

The Sandinistas have emphasized social programs in a political context where possible, to mobilize the population and to indoctrinate the people in Marxist ideology. The number of people included in the social security program has doubled, although agricultural workers are excluded. Improving general education has been a primary objective of the Sandinistas, particularly in rural areas. Large numbers of Cubans have assisted the government. Through its educational material, the GON has sought to instill Marxist ideology in the next generation of Nicaraguans. Many parents who are not Sandinistas, and the Catholic Church have objected to this process of "indoctrinal education". The Ministry of Education has total control over the curriculum in both private and public schools. For example, in church-run schools, the Ministry of Education does not allow regular class-time to be allocated to religious training. Moreover, government officials have recently discussed initiating military training for those eight years of age and above.

The Sandinistas are also proud of their accomplishments in health, where they have increased significantly the number of hospital beds and doctors. However, medical care has been handicapped increasingly by the flight of the country's best doctors and the severe shortage of foreign exchange to buy medicine and medical supplies. Consequently, while many

preventive medicine programs funded largely through United Nations agencies continue to make progress, other areas of medicine have declined sharply, with hospital care the hardest hit.

Consumer subsidies have been a major expense, equaling approximately 10 percent of GDP in 1983, and contributing to shortages and production declines. These subsidies were reduced in early 1985, but their sudden withdrawal has proven catastrophic to lower income families squeezed by inadequate wages.

The most damaging aspect of the Government's effort to control consumer costs is the low prices it pays producers, thereby discouraging production. According to Sandinista officials, 93 percent of basic food items are produced by small growers. Given the unreasonably low prices (and they are fined or jailed if they try to sell their produce privately), these small producers have basically withdrawn as much as possible from the market economy. Forced to produce at or below cost, they have limited production to their own immediate needs. This has brought about a reduction in the production of corn and beans, for example, of at least 50 percent. As might be expected, the shortages resulting from price fixing have led to hoarding and an active black -- or as some would prefer "free" market, -- with prices more clearly reflecting economic realities. This free market has been fought by the government, but without much success.

There is a general shortage of consumer items in Nicaragua. Imports are not available because of the foreign exchange shortage owing to poor export performance. Domestically produced goods are hampered by price controls, shortage of imported inputs, lack of investment, and state control of retailing and wholesaling operations for many basic goods.

Price controls and control of distribution started in 1979 and were gradually expanded until the present. The growing distortions and costliness of subsidy programs and price controls caused the Sandinistas to make some changes in 1985, but the structure remains in place. The control mechanism most widely used is the ration card which is issued by the CDS, i.e. block committee, which is controlled by the FSLN. Thus shortages are also converted into a means of political control. Gasoline is rationed at twenty gallons per month, and coupons are obtained at state banks. Families can go to the state-run Enabas commissaries to buy basic goods that are available every two weeks. Typically, there is poor quality sugar, rice, soap, edible oil, pasta, and spaghetti available;

less frequently available are beans, and eggs; and rarely, dried milk. Prices of these products, when available, are usually one-fourth the cost of comparable free market products. Vegetables such as potatoes, radishes and carrots which are not controlled by the state are in sufficient supply.

The Sandinistas' interest rate policy is yet another example of faulty economic decision making. Although inflation is at about 60 percent, the maximum interest a Nicaraguan can receive on a time deposit is 25 percent. Regular savings accounts bear much lower rates. Such severely negative real interest rates combined with the average Nicaraguan's distrust of the nationalized banking system have led to a savings rate of only 1 percent of GDP (1983), by far the lowest in Central America, which underlines the country's dependence on external savings and investment.

An overvalued exchange rate has been another damaging Sandinista economic policy. The GON has allowed the development of a three-tier exchange market system: an "official" rate of 10 cordobas to the U.S. dollar for some exports and most imports; a "special" rate of 15 cordobas per dollar for imports of certain capital goods; and a parallel rate of 28 cordobas per dollar for other transactions. The GON has progressively transferred transactions to the parallel rate as the other rates became more and more overvalued. On February 8, the GON adjusted the parallel rate to a maximum of 50 cordobas to the dollar; multiple rates up to that amount are being applied by the Central Bank to various categories of goods. This increasingly complex and unrealistic exchange rate policy has contributed to the severe shortage of foreign exchange. The "black" market rate of over 500 cordobas per U.S. dollar current today in Nicaragua may more accurately reflect the cordoba's true value.

ROLE OF THE PRIVATE SECTOR

The Sandinista government has consistently proclaimed that it wants to maintain a mixed economy. [2] Most confiscations

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(2) Victor Tirado Lopez, a member of the FSLN Directorate, gave the following definition of a mixed economy during a speech on February 10, 1985, "A mixed economy is one in which the state assumes a leading role because free enterprise and the private sector in themselves do not guarantee the people's welfare. They must be under the control of the state. Nicaragua has already experienced the free enterprise system. It brought us backwardness, misery, dependency, and a dictatorship."

occurred immediately after the revolution. Banks, insurance, mines, forestry, shipping, export marketing firms, and all of Somoza's holdings were taken over by the state. Also, numerous farms, businesses and industries of persons accused of being Somocistas were confiscated - all without due process. Since then, take-overs of property, including that of U.S. citizens, have been numerous but more gradual. The private sector today barely accounts for just over one half of total means of production.

However, even where the government does not have actual ownership, it controls so many aspects of the economy that private enterprise is severely constrained; the private sector has considerable difficulty obtaining loans and foreign exchange. The government-owned banks give preference to the public sector. For example, in 1983 the public productive sector received over six times as much credit as the larger private productive sector. High priority sectors get lower interest rates. Loans to private commercial enterprises carry the highest rates.

Fear of further nationalizations and the belief that the Sandinistas' Marxist orientation is designed to destroy the private sector has brought private investment to a virtual halt throughout the country. Businessmen fear that new onerous taxes and new regulations will be used to carry out further confiscations, or so increase the debt burden many private operations carry, that the government-owned banks and credit institutions can move in and take them over legally. What businessmen see is a Marxist economic structure which eventually drains the private sector of all economic vitality. If indeed the power to tax is the power to destroy, the Sandinistas have gone the old adage one better: they have managed to set controls in such a way as to ensure slow economic strangulation, particularly of the large export oriented cotton and coffee growers. Nicaraguan businessmen, both small and large, today believe that the Sandinista Government can, by regulation, punish its opponents whenever it wishes. Consequently, without a return to democratic pluralism and a respect for private property, there is little likelihood that the movement toward state control of the economy at all levels will not continue, despite the resistance of those fighting for a free market economy.

THE AGRICULTURAL SECTOR

Agricultural reform began with the seizure of Somoza's land holdings and numerous other farms after the revolution. The state took over their management and put the former tenant farmers on a wage system. However, an agrarian reform bill was

not passed until July 1981. Under the reform, all idle farms over 260 hectares were to be nationalized. Over 1,000,000 acres were confiscated and converted to state farms and cooperatives. This policy was initially popular with the peasants even though they did not get title to the land they farm. Today many people regard land confiscation as politically motivated and a means to punish opponents of the Sandinistas. The absence of clear title to lands "given" to many peasant families has brought the program into question. According to many observers, most of the best Somoza-held lands have not been distributed but turned into state farms which remain appendages of the Sandinista Government, ensuring control of both the land and the peasants who work it.

Nicaragua has excellent agricultural resources and was a food exporter until about 1977, but the GON has so discouraged its farmers with low prices, input shortages and "land reform" without titles, along with the new forced resettlement program in which an estimated 700,000 quintales (one quintal equals 100 pounds) of grain was abandoned when the campesinos were moved, that the country will be unable to feed itself again this year.

Food prices were raised sharply last year; in the first quarter of 1985 prices increased 200-300 percent, but a senior Sandinista official recently said the country will still have to beg for foreign food donations to cover rice and corn shortages. Even the plantain crop will be short. The cotton crop, one of Nicaragua's important foreign exchange earners, is 20 percent smaller than expected for 1985, and much of the coffee crop has been lost due to the absence of sufficient pickers, low prices, and transportation problems. Meat production is up (because of a 200 percent price increase), but the total number of cattle being raised is declining. Much of the meat, moreover, is moving into export channels and is not appearing in the Nicaraguan marketplace. Meat has become a thing of the past for virtually all lower income families; many in the middle class now eat meat only two or three times weekly.

Nicaragua is unlikely to get substantial increases in farm output until it scraps the so-called state cooperative farms that weaken incentives and encourages private farming through fair prices. Even then serious shortages of spare parts, fertilizers and other off-farm inputs will continue to hamper production. The GON has recently granted small price increases to producers, but its original program of forcing producers to sell to the government at arbitrary prices remains in place. Without a free market

economy, something which earlier made Nicaragua the largest food exporter in Central America, a reversal of this decline will not occur...

LABOR

The GON also has made wage control an integral part of its austerity program to reactivate the economy as well as regiment workers in the economy. The Ministry of Labor strictly limits wage increases and has directed pay raises toward the lowest salaried employees in order to correct the "unjust" salary structure inherited from the Somoza regime. In fact what has been eliminated is a free market mechanism which rewards skilled workers and managers. The result appears to be a trend toward the creation of a mass society at the lower end of the economic scale, and a flight abroad of qualified workers as well as ingenious methods within the private sector to attract and hold skilled workers by using fringe benefits. The Ministry claims that its control of wages promotes stability in the job market while eliminating wasteful competition among employers for skilled workers. The facts are the opposite. Inflation has destroyed real wages, forcing many workers to the brink of destitution and employers to risk legal sanctions in order to meet under-the-table demands or lose their best workers.

Seven major labor confederations operate in Nicaragua. The two largest are linked directly with, and are controlled by, the FSLN. Three others are Marxist organizations and have ties to Nicaragua's various Communist parties. Of the two remaining independent groups, one has a Christian Democratic orientation and the other is democratically oriented but not aligned with any political party. The Sandinista labor organizations maintain a high level of contact with sympathetic labor organizations abroad, in accordance with the FSLN's overall strategy of using every possible mechanism to promote international support for its revolution. The Sandinistas have offered Nicaragua as the venue for numerous international labor conferences.

The Sandinistas proclaim that the revolution was fought on behalf of the workers and peasants, and indeed the GON initially adopted policies that were heavily biased toward labor. Laws were enacted to protect workers' jobs and wages, and the government almost invariably sided with the workers in labor disputes. Sandinistas encouraged workers to denounce "bourgeois" businessmen who were attempting to decapitalize their firms and sanctioned plant takeovers by workers. These policies had the predictable effect of seriously eroding labor discipline and stimulating a rash of strikes and seizures of firms by the employees.

These policies also had the intended result of weakening the private enterprise sector. After the GON had itself assumed control over a significant portion of the economy, however, it frequently suffered from the same type of labor difficulties, i.e. strikes and temporary takeovers, as did private sector firms. Finally, the FSLN/GON changed its tack and initiated new policies focused on production. In September 1981, the GON imposed a state of emergency suspending the rights and guarantees of Nicaraguans to strike.

In September 1983, the GON established a mandatory national wage scale for all salaried workers. The plan called for the creation of a 26-step wage scale, with all occupations allocated to the steps, from level one for unskilled labor to level 26 for the most qualified professionals.

Discontent with the GON's labor policies, especially the wage scale system, prompted in mid-February 1984, the first major labor strike since the 1981 decree banning such activities. Some 5,000 field workers at Nicaragua's largest sugar operation defied the prohibition on strikes. They seized the estate's refinery to protest rising prices, frozen wages, and reduced allotments of rationed items. The Sandinistas criticized the independent union at the refinery for instigating the strike, but in fact those participating were field workers who had decided to disregard the leaders of their Sandinista aligned union and initiate a spontaneous wildcat strike. At first, the Labor Ministry resisted the workers' demands for higher wages, arguing that any wage increase would be inflationary. In the face of worker solidarity, the Ministry ultimately backed down and approved pay raises.

The state of emergency has been extended nine times and currently continues in effect. But, in conjunction with the commencement of the three month election campaign period, the GON officially lifted its ban on strikes in early August, 1984. Within three weeks, various unions began to test their restored right to strike. Sporadic strikes began to break out in various firms in late August, and on September 3, 720 metal workers walked off their jobs. Within hours, the Labor Ministry declared the strike to be illegal and said that there would be no negotiations while it continued.

The Sandinista press blamed the non-Sandinista-aligned unions for the flurry of labor disputes. It labelled them "voices that are linked to the bourgeoisie and imperialism." It stated that these "enemies of the working class" were striving to foment strikes to distract peoples' attention away from imperialist aggression.

Comandante Victor Tirado, the member of the FSLN National Directorate handling labor matters, asserted that "in the current situation, strikes make no sense. They diminish production and weaken the revolution." Tirado explained that "the strike as a weapon, as a political instrument of the working class, has already passed into history. The GON's experiment with allowing strikes was thus short-lived, lasting barely one month. While workers now have the legal right to strike, a de facto ban remains in effect.

MILITARY COSTS

Military costs are another major contributing factor to Nicaragua's economic woes. Somoza's National Guard never exceeded 7,500 men until 1978 when efforts were begun, largely unsuccessfully, to double the size of the Guard. There are now 120,000 armed Nicaraguans and the government is planning further increases. At the beginning of 1984, official Nicaraguan sources estimated that 25 percent of the budget went to the military. President Daniel Ortega has admitted that 40 percent of the 1985 budget is earmarked for defense. Many observers believe that figure to be much higher if indirect support costs are included.

According to the Sandinistas, arms procurement is not costing Nicaragua foreign currency. Weapons suppliers, they claim, have either donated arms or granted generous credit terms. Major expenditures for the military are for wages and supplies such as food and uniforms. Nevertheless, the military is suffering from shortages of basic supplies.

In addition to the direct costs of maintaining the largest fighting force in Central America, the opportunity costs are high. For the past two years, Nicaraguan harvests have suffered because of manpower shortages. Students and foreign volunteers have been shipped in to assist with cotton and coffee harvests to help replace more experienced laborers who are either now in the army, in hiding or outside the country. Besides creating costly delays, the use of these inexperienced pickers damages plants and reduces product quality.

It is difficult to assess how much of the current military expenditure is due to the war against the freedom fighters. The greatest majority of those whom the Sandinistas fight today are former supporters of the FSLN or at least of the broad goals of the pluralistic revolution. FSLN policies have converted them into enemies. Even in the first years of the Sandinista regime, when the freedom fighters were not yet numerous, the army, militia and reserve were much larger than under Somoza; obviously internal control was the primary reason for the buildup.

OUTLOOK

With the November 1984 election out of the way, the Sandinistas are again turning their attention to economic problems, which they admit are severe. However, the Sandinistas have been careful not to raise expectations, stressing that the fighting is a serious and unavoidable drain on the economy. They continue to falsely blame their problems on the regional economic downturn and U.S. aggression.

Thus far the Sandinistas have resisted the economic, political, and social pressures to open the economy. The halfway measures of raising some prices to producers will not succeed, however, in revitalizing the economy. Too many control mechanisms remain in place for the market to operate efficiently. Moreover, because of their ideological outlook, the Sandinistas are unwilling to make basic structural changes, changes which would undoubtedly benefit the economy, but also assist their democratic opposition. They appear to prefer a deteriorating economy to one in which they would lose control.

Aid from the West will likely continue its downward trend. The Sandinistas' continuing harassment of the Democratic opposition seems to have dampened enthusiasm even among their former supporters in Europe. Aside from political considerations many countries have shied away from extending credit lines and loans because of Nicaragua's poor payment record. With production still declining, there is no realistic way for the country to pay its foreign debts. Nevertheless, for political reasons it is expected that the Soviet Union, Cuba and Eastern European countries, along with countries like Libya and Iran, will seek to keep the country from collapse through massive assistance. With oil from the Soviet Union and huge quantities of goods coming into the port of Corinto from the Sandinistas' friends, the economy may continue to limp along, but fundamental problems will remain.

Unless significant changes occur, the next five years look as bleak as the first five years of Sandinista rule. The government has called 1985 the decisive year in its battle against the armed opposition and is devoting its resources to eradicating them. It continues to blame its economic problems, including shortages of all kinds, on this struggle. It has also recently stepped up its campaign of condemning smuggling, speculation and hoarding, attacking small businessmen and further inhibiting their operations. The Sandinistas continue to state publicly that Nicaragua is not becoming another Cuba and that they want to maintain a mixed economy. A review of policy trends and the private statements of various Sandinista leaders suggests, however, that the private sector is headed for a slow death.

Rather than resort to wholesale nationalizations, the Sandinistas will continue to tighten the reins on the private sector, starving it of what it needs for existence: remunerative prices, access to a free market, freedom to buy and sell, access to foreign currency, and, ultimately, the rule of law, i.e., a true agreement between those in the private sector and the Sandinistas which will allow them to exist as free men in a free society. Without these elements, elements which do not exist today in Nicaragua under the Sandinistas, men and women participating in the private sector will finally either be driven out or drop out, leaving the government to step in. Present policies guarantee these results. Even after the individual tragedies of those who lose everything in their struggle come to an end, the national tragedy of Nicaragua will go on.

US POLICY

After playing a key role in the ouster of President Somoza in 1979, the US Government immediately airlifted food to feed the thousands of persons displaced by the war. The US continued to assist the GRN with both financial and food aid until 1981 when new loans were cut back substantially and obligations continued on only a few projects. The US sought to provide some military assistance, mainly training, but was rebuffed and had the same experience when it offered Peace Corps volunteers. The US supported the favorable treatment granted by the commercial banks in their rescheduling agreement and supported loans in multilateral banks based on stated commitments to a mixed economy and sound policies.

As the arrogance of the Sandinista leadership and its complete commitment to Marxism-Leninism and alignment with the Soviet Bloc became increasingly apparent, US opposition to the regime grew and was reflected in the 1983 decision to drastically reduce the sugar quota. Preferential access to the US market and a high price for sugar were deemed inappropriate for Nicaragua. Opposition to loans in multilateral development banks was based on the increasingly poor creditworthiness record of the Sandinista government.

Numerous uncompensated property expropriation cases against U.S. citizens have dragged on for over five years. Despite the legal possibility of taking retaliatory action in connection with these cases, we did not do so. Nicaragua continued to benefit from GSP and was included in the list of countries eligible for "duty free" treatment under the Caribbean Basin Initiative (CBI). However, Nicaragua did not meet the requirements to be designated for the CBI.

Depressed economic conditions in Nicaragua were, of course, due to disastrous economic policies adopted by the Sandinistas and not to any actions by the US. Continued intransigence by the Nicaraguan government in refusing to take concrete steps toward a dialogue and other measures leading to reconciliation caused the US Government to impose an embargo on trade with Nicaragua at the end of April 1985. The embargo is directed at the Sandinista regime, itself responsible for the increasingly depressed economy, and not directed at the Nicaraguan people who are the victims of that regime. The primary cause of expected further economic deterioration will not be the embargo, but rather the economic and political policies of control and repression that the Sandinistas continue to follow.

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PUBLIC SECTOR PRODUCTION AS % OF GDP (Nicaragua)

YEAR	%
1975-77	12%(average)
1978	13.7%
1979	26.1%
1980	33.6%
1981	37.8%
1982	39%
1983	40%
1984	45%

PERCENT SHARE OF BANK CREDIT THAT GOES TO PRIVATE SECTOR

(Nicaragua)

YEAR	%
1975-77	75% (average)
1978	70%
1979	29.1%
1980	23.3%
1981	40.2%
1982	15%
1983	15.7%
1984	10%

NICARAGUA: AVERAGE REAL WAGES*

(Annual percentage change)

	1980	1981	1982	1983	Est. 1984
Average wages					
Private sector	-15.0	1.4	-12.7	-12.6	-11.8
Public sector	***	-10.8	-18.7	-11.5	4.4

*Nominal wages are deflated by the consumer price index.

CONSUMER PRICE INDEX (Nicaragua)

YEAR	%
1975-77	7.4%(average)
1978	4.6%
1979	4.82%
1980	35.3%
1981	23.9%
1982	25%
1983	28%
1984	60%
1985*	100%

*estimate

FINANCIAL SUPPORT TO GOVERNMENT OF NICARAGUA FROM COMMUNIST COUNTRIES

YEAR		
1979	Total	$2 million
1980	Economic	$30 million
	Military	$5 million
1981	Economic	$80 million
	Military	$40 million
1982	Economic	$150 million
	Military	$90 million
1983	Economic	$240 million
	Military	$110 million
1984	Economic	$280 million
	Military	$250 million

US ECONOMIC AND MILITARY ASSISTANCE TO NICARAGUA 1962-1985

YEAR	TOTAL ECON	TOTAL MILITARY
1962-78(total)	224.7	25.2
1979	16.7	*
1980	37.4	0.0
1981	59.6	0.0
1982	6.2	0.0
1983	0.0	0.0
1984	0.0	0.0
1985	0.0	0.0

*indicates amounts less than $100,000

(Nicaragua)

STATE ENTERPRISES	FUNCTION AND STRUCTURE
1. Nicaragua Institute of Energy (INDE)	Generation of Electric Power. 100 percent of sector
2. Nicaraguan Institute of Water and Sewage Facilities (INAA)	Water and Sewage Services. 100 percent of sector
3. Nicaraguan Institute of Insurance (INISER)	Created in October 1979 with the nationalization of all domestic insurance companies. 100 percent of sector
4. Nicaraguan Institute of Fisheries (INPESCA)	The institute has a monopoly over the marketing of fish and seafoods.
5. Nicaraguan Institute of Mines (INMIEH)	After the revolution, the institute was given a monopoly over the exploitation of mines.
6. Nicaraguan Institute of Post and Telecommunications (TELCOR)	Transformed into a public enterprise in 1971; it operates the telephone and telegraph network as well as the post office service. 100 percent of sector.
7. National Lottery	This enterprise has been made dependent upon the ministry of welfare. 100 percent of the sector.
8. National Petroleum Company	Commercialization of oil. 100 percent of wholesale market.
9. Enterprise for marketing of basic grains	It purchases and sells basic grains and other products of massive consumption. It acts in some cases (grains) as a price regulatory agency.
10. National Bus Company (ENABUS)	Public enterprise before the revolution. 50 percent of the sector in Managua.
11. National Railways	Public enterprise before the revolution which mainly serves the Pacific coast.

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12.	Foreign Trade Enterprises A. Five enterprises provide pre-export financing to producers which monopolize cotton, coffee, beef, sugar, and banana exports in addition to marketing the different export products.	100 percent of the sector.
	B. Nicaraguan Enterprise for Agricultural Inputs (ENIA)	Imports those products and sells them domestically to the to the general public. 100 percent of the sector.
	C. Nicaraguan Import Enterprise (ENIMPORT)	Coordinates the imports of all State-owned APP (AREA PROPIEDAD DEL PUEBLO) Enterprises. 100 percent of the sector.
	D. Enterprises in the area of public property	State ownership in these enterprises varies from less than 50 percent to 100 percent. The major part of these enterprises were confiscated immediately following the revolution.
13.	People's Industrial Corporation (COIP)	This is a holding company of about 100 enterprises grouped into five branches: 1. Metal-working 2. Foodstuffs 3. Construction materials 4. Textile and design 5. Chemicals, plastics, and pharmaceuticals. 36 percent of total manufacturing production in 1980.
14.	People's Commercial Corporation (CORCOP)	Textiles, automobiles and auto parts, appliances, general services, supermarkets, and popular stores. 20 percent of the commerce in basic goods during 1980.
15.	Enterprises Dependent on the Ministry of Agricultural Development	More than 25 enterprises producing agricultural inputs and/or agroindustrial goods; 173 production complexes and 2,200 units of state production generated by these enterprises. Was 16 percent in 1980.

16.	People's Forestry Corporation (CORFOP)	This corporation produces about 10 percent of total forestry production.
17.	Enterprises in the communications field	The State's radio corporation, the Sandinista TV system (2 stations), the Editorial New Nicaragua (Book Publishers), the "Office of Public Relations,"and the "Cultural Corporation".

TAB C

Qs & As on Economic Sanctions

Q: What is the condition of the Nicaraguan economy today?

A: --The Gross Domestic Product today under the Sandinista Government is 14% below pre-revolution levels. Foreign debt has risen from $1 billion in 1978 to $4.6 billion today. The country is incapable of meeting its debt service obligations and has extensive debt arrearages with most of its public and private creditors. The budget deficit is over 20% of the Gross Domestic Product. The trade imbalance has averaged $350 million for the last five years -- exports declined 70% since 1978. The Sandinistas are forced to rely on foreign assistance, mostly from Soviet bloc countries, to finance their balance of payment deficits which amounted to $500 million in 1984.

Q: What about the standard of living in Nicaragua today?

A: --Although the Sandinistas claimed a 3% growth rate in 1983, they admitted that the standard of living declined. The accelerating economic decline continued into 1985. Price inflation of many food staples ranged between 200-300%. Domestically produced goods such as meat, sugar, eggs and milk are increasingly scarce, and imported consumer goods are becoming virtually nonexistent for the average shopper. Real wages have declined 50% since 1980, so that many lower and middle class families are falling into the poor category. Unemployment rose 20% in 1984. National savings is about 1% -- one of the lowest rates in the world.

Q: What about production levels?

A: --The important coffee and cotton harvests for 1984-85 were significantly below projected production levels -- coffee down 30-40% and cotton down 20%. These are the two leading export commodities for Nicaragua. Production of such staple products as beans and corn was down 50%. The country has gone from exporting to importing food.

Q: Is Nicaragua credit-worthy?

A: --Nicaragua is in arrears in debt repayments to most of its major creditors. Arrearages totaling over $15 million to the World Bank exceed 300 days -- more than any other borrower. The IBRD has stopped making new loan commitments to Nicaragua, and has suspended further disbursements on existing loans.

Q: Are the Sandinistas creating a state economy?

A: --The State's role in the economy increased from 13% before the revolution to around 50% today. Government control and interference in the economy is pervasive and has discouraged private sector initiative. The government controls all banks, major export industries, foreign exchange allocations, and insurance. The private sector is harassed and hindered not only by a lack of civil liberties but by arbitrary confiscations, credit discrimination, price controls, excessive taxation, and discrimination in access to foreign exchange. Loans to the private sector dropped from 70% in 1978 to 10% in 1984. Taxes are the highest in Central America.

Q: What about the impact of the trade sanctions on the private sector?

A: --The private sector is already severely depressed and reduced in size. It accounts for just over half of total production, down from 87% before the revolution, and an estimated 60% of managers and professionals have departed since 1979. Production, particularly for export, has dropped sharply since 1980, partly as a result of adverse world market prices and dislocations caused by civil strife. Most importantly, Sandinista centralized government policies have severely squeezed the private sector. Businessmen have been denied access to foreign exchange to import vital items needed to maintain production. Nicaraguan government enterprises have enjoyed much greater access to foreign exchange and imports. Nicaraguan businessmen recognize that the origin of the nation's severe economic crisis is Sandinista policy.

Q: Hasn't the U.S. undermined the Nicaraguan economy?

A: --From the time the Sandinistas took power in 1979 until 1981, the U.S. was the largest donor to Nicaragua, providing $118 million in economic and humanitarian assistance. The U.S. also supported Nicaragua in its dealings with multilateral financial institutions and private banks. By 1983 the Sandinista Government had received over $250 million from multilateral development institutions to which the U.S. is the principal contributor.

--Actions by the U.S. against the Nicaraguan economy have not been arbitrary or sweeping. We suspended government-to-government aid in 1981 only after the Sandinistas persisted, in spite of repeated warnings, in their support of armed insurgency in the region. In 1983, with the pattern of Sandinista destabilizing actions even more clearly established, we reduced Nicaragua's sugar quota.

--The economic sanctions announced on May 1 respond to almost six years of Sandinista actions threatening to us and our friends in Central America. By the same token, we have advised the Sandinistas that we are prepared to reexamine the sanctions at any time they take concrete steps toward a dialogue and other measures leading to genuine reconciliation, freedom, and peace in Nicaragua and the region as a whole.

Q: Why aren't Nicaraguans fleeing this mess?

A: --They are. Thousands of Nicaraguans have fled the economic, political and military suppression of the Sandinistas. An estimated 60% of the country's managers and professionals have left since 1979. Fear of military conscription has prompted many young workers and students to flee or go into hiding. People who have left for in Honduras and Costa Rica number at least a 100,000. The Sandinistas have set passport and exit visa fees so high that they equal a month's wages for the average Nicaraguan.

Q: Won't these trade sanctions hurt the middle and lower class Nicaraguans the most?

A: --Our purpose in imposing these sanctions is to convince the Sandinistas that they must change their policies which have brought economic chaos to Nicaragua, and which threaten the security of the region.

--The Sandinista leaders decide who suffers most from their declining economy. Thus far, the political elite have not denied themselves the imported consumer goods, the fine food, fancy automobiles and the other priviledges which the "nomenklatura" enjoys in other communist socities.

--We hope that these latest measures will convince the Marxist-Leninst leaders that they must live up to the promises made to their own people, to the OAS and to the Contadora process.

--We have made clear to the leaders of Nicaragua that these sanctions can be lifted at any time they take concrete steps toward a dialogue with the democratic resistance and other measures leading to genuine reconciliation, freedom and peace in Nicaragua and Central America.

Q: Won't trade sanctions push the Sandinistas further toward the Soviet Bloc?

A: --We don't believe that trade sanctions will push the Sandinistas into the Soviets' arms -- the Sandinistas made clear nearly six years ago that they were committed to a close security and economic relationship with the Soviet Bloc and Cuba. President Ortega's current trip to the Soviet Bloc and agreement with Moscow are only the latest signs.

--This process of identification with Soviet and Cuban objectives in the region and of pursuing a growing military and economic relationship with these countries occurred at a time when we were Nicaragua's largest aid donor.

--We believe that trade sanctions will bring home to the Sandinistas the costs involved in placing a higher priority on their relationship with the Soviets and Cubans and their destabilizing policies in the region, than they place on the development and well-being of their people.